

Achieving Fiscal Sustainability: The Case of El Salvador

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Chief of Party

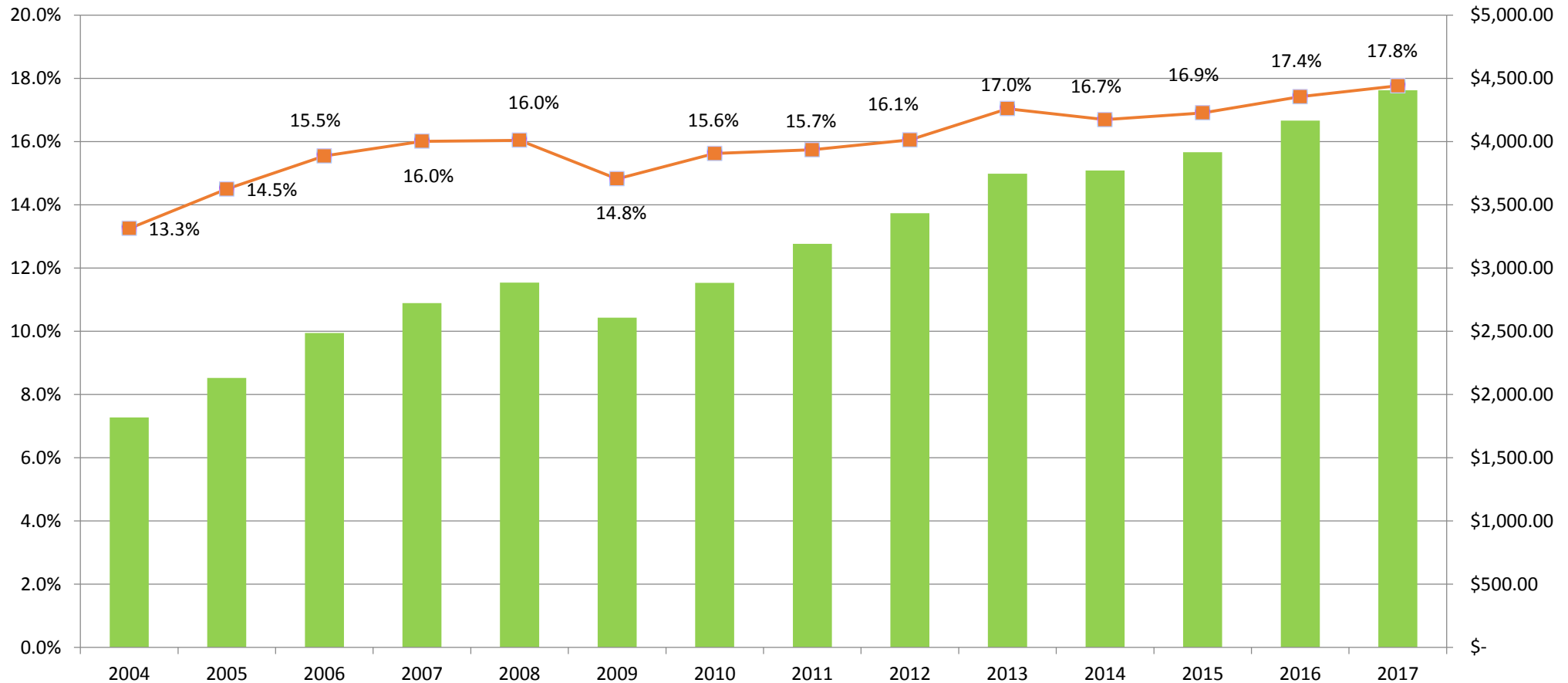
USAID Domestic Resource Mobilization Project

Fiscal Sustainability – The Facts in the Salvadorian Case

- Increased net tax revenue collection
- Increased public expenditure
- Structural fiscal deficit
- Sustained growing debt

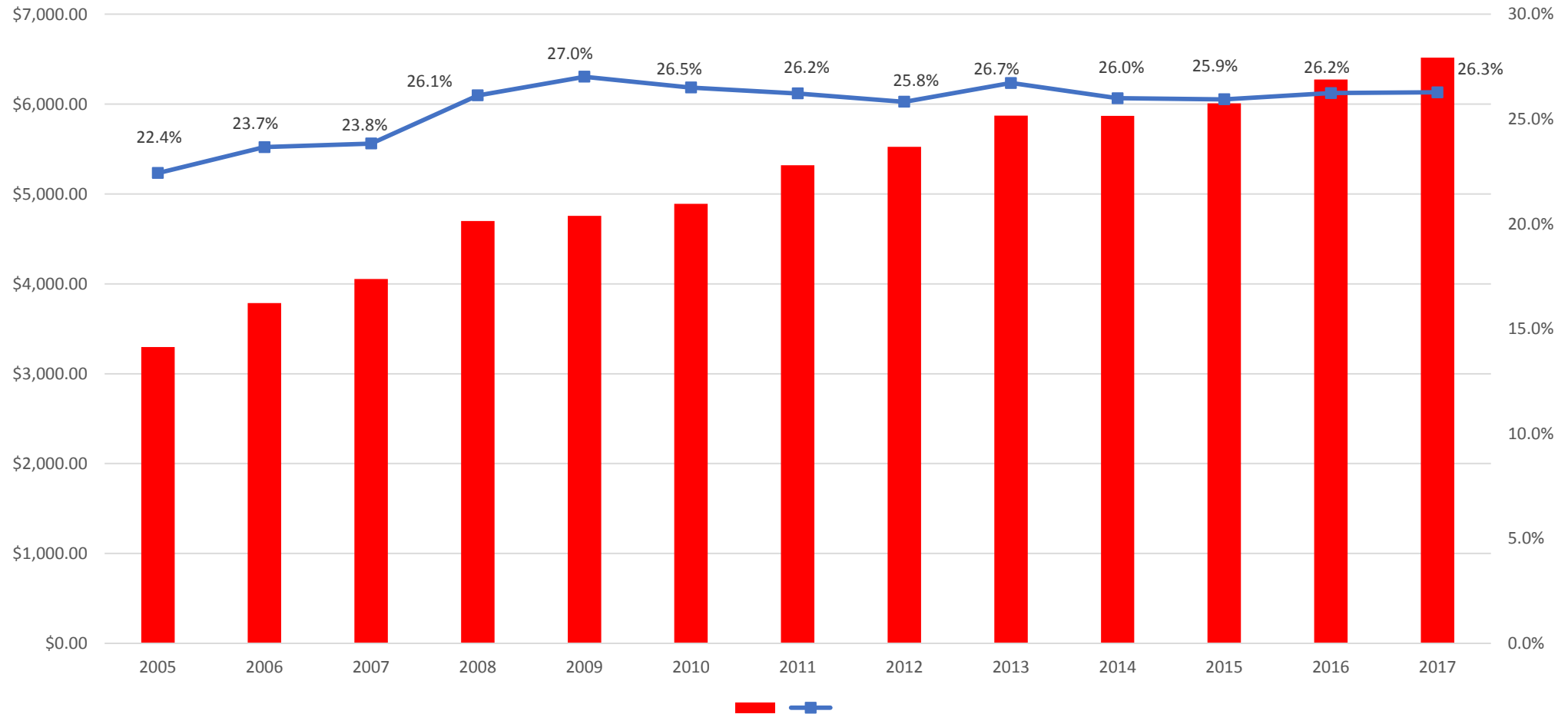
Fiscal Sustainability – The Facts in the Salvadorian Case

Net Tax Revenue in Millions of US\$ and Percentage of GDP



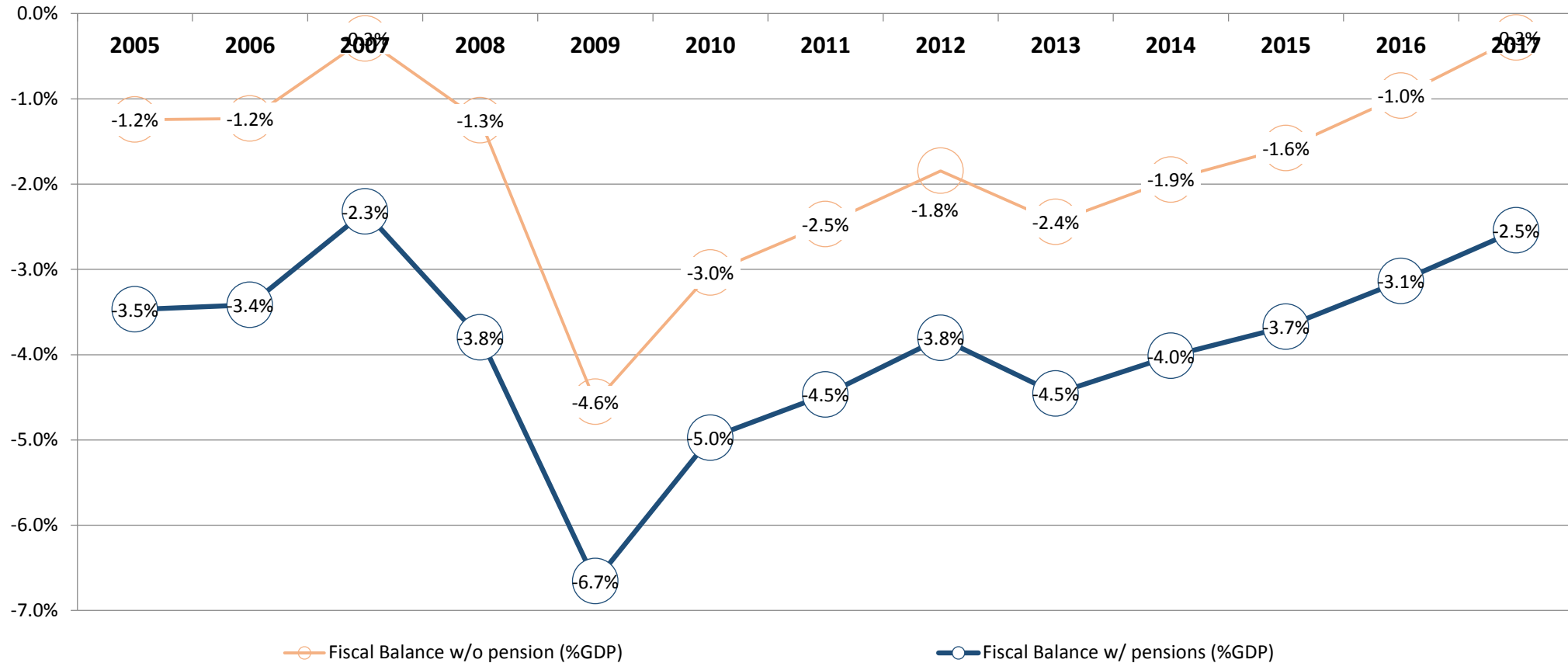
Fiscal Sustainability – The Facts in the Salvadorian Case

Public Expenditure in Millions of US\$ and Percentage of GDP



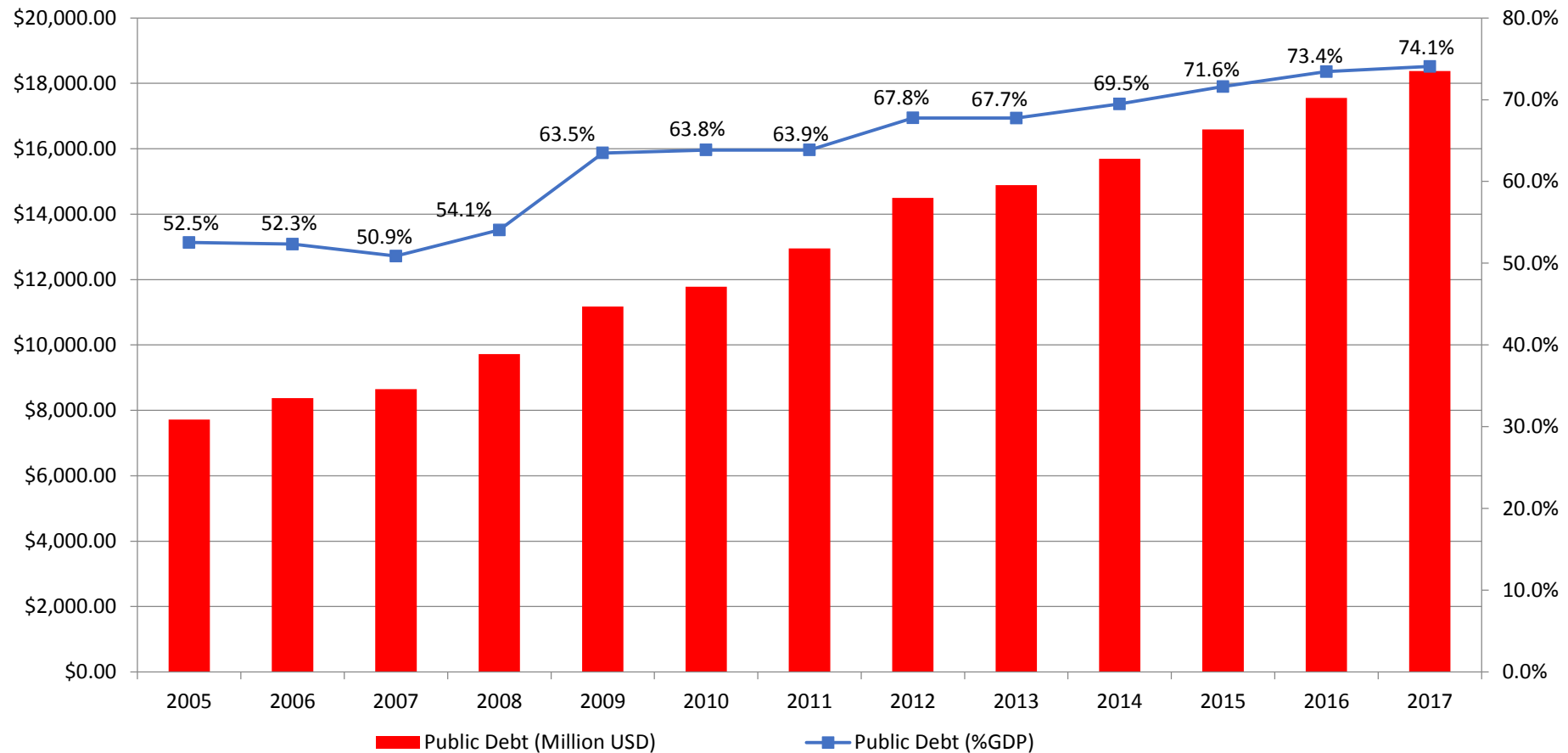
Fiscal Sustainability – The Facts in the Salvadorian Case

Fiscal Deficit in Million of US\$ and Percentage of GDP



Fiscal Sustainability – The Facts in the Salvadorian Case

Public Debt in Million of US\$ and Percentage of GDP



The Challenges of Supporting PFM Reforms

- Fiscal Sustainability (The ultimate target)
 - i. The Constitution mandate is to guarantee fiscal balance
 - ii. The political rules against fiscal rationality
 - iii. Revenues increase trigger a higher public expenditure
 - iv. Permanent focus on revenues and not on expenditures
 - v. Technical assistance should focus on both side of the equation

The Challenges of Supporting PFM Reforms

- The Mirror Effect
 - i. Low capacity of governments to follow international benchmarks
 - ii. An isolated vision of the PFM world
 - iii. Reluctance to accept foreign models and solutions
 - iv. The political agenda Vs the technical imperatives

The Challenges of Supporting PFM Reforms

- Antagonism is the rule on fiscal reforms
 - i. Political agendas are always first
 - ii. PFM reforms are critical in the political game
 - iii. How to address the conflict from the technical shore

Budget Reforms

- Materialization of public policy: the challenge
- Result Oriented Budget
- The virtuous circle of ROB
- Improving transparency and accountability

Public Accounting Reforms

- Adoption of IPSAS
- Increase transparency of public entities assets, liabilities, revenues and expenditures.
- Better financial information leading to proper policy making

Public Treasury Reforms

- Treasury Single Account.
- Budget commitment installment.
- Improve management and monitoring of contracts with banks
- Implementing proper financial management

Public Procurement Reforms

- E-procurement
- Implement more efficient public procurement methods – Reverse auction and framework agreements
- Integral vision of the public procurement process
- Public Procurement Ombudsman

Public Investment Reforms

- Investment projects oriented to results and application of the public value chain
- Greater monitoring and evaluation of investment projects
- Greater transparency in the execution of investment projects
- Improve efficiency in the use of investment resources

Link Between Centralized and Decentralized PFM Reforms

- Subnational governments autonomy; the challenge of poor fiscal performance
- Closing the gap between national and subnational government fiscal systems
- Improving national governments capacity to rule the subnational fiscal environment.

Achievements in PFM in El Salvador

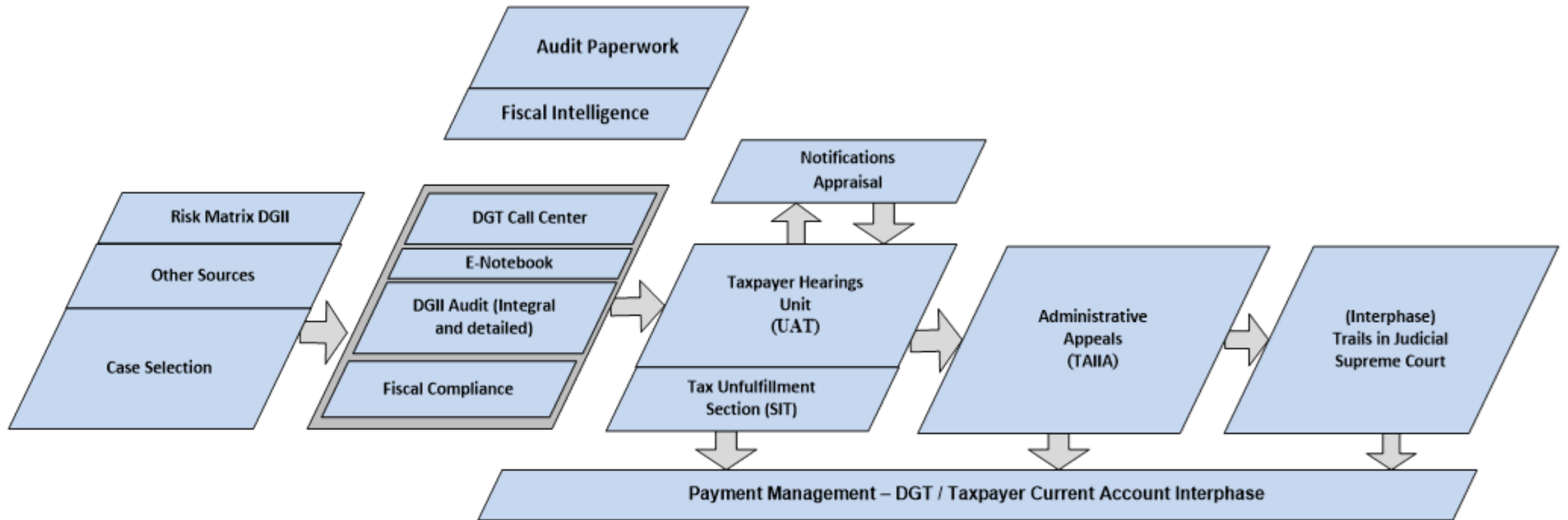
- El Salvador is reforming its budget, implementing ROB and medium term fiscal and expenditure frameworks.
- El Salvador is adopting the IPSAS
- El Salvador is developing a new IFMS
- El Salvador created a public procurement ombudsman office
- El Salvador is expanding e-procurement across all public institutions

Improving Revenue Mobilization

- A progressive and fair legal tax system is always the first step
 - Loopholes must be solved
 - Facilitations of fiscal compliance
 - Strong statutory power
- Building technical capacity within the tax and customs administration
- Sound information systems

A “Whole in Revenue” System

Roadmap – CSMS II



Achievements in Domestic Revenue Mobilization in El Salvador

- El Salvador has increased net tax revenue collection by more than 4% of GDP in the last 15 years.
- El Salvador changed its tax structure, making tax collections more progressive.
- Tax evasion crackdown program to reduce tax evasion and avoidance (Approx. 229 million \$US or 0.96% of 2016 GDP).
- El Salvador facilitated tax payment for its citizen through the implementation of an e-filing system and a large taxpayer office.

Achievements in Domestic Revenue Mobilization in El Salvador

- GOES now has more accurate taxpayers records and information.
- Creation of Fiscal Compliance and Collections call centers has reduced the administrative cost of tax collections for the MOF.
- Creation and implementation of a “whole in revenue” system

Achievements in Domestic Revenue Mobilization in El Salvador

INDICATOR	EL SALVADOR 2004	EL SALVADOR 2016	INTERNATIONAL BENCHMARK 2016
Net Tax Revenues as percentage of GDP	13.3%	17.4%	18.0%
VAT collection as percentage of total tax revenues	53.3%	43.7%	40.0%
Income Tax collection as percentage of total tax revenues	29.3%	39.9%	45.0%
VAT Evasion	42.29%	40.36%	10.0%
Use of data mining for tax control	NO	YES	YES
E-filing system in place	NO	YES	YES
Integrated tax control system in place	NO	YES	YES

Monitoring, Evaluation and Learning: A Key to Guarantee Success

- MEL is a process that must be used to influence decision making and resource allocation.
- PFM and DRM Projects needs to be dynamic and flexible. They must adapt to constantly political and economic changes.
- Projects should develop mitigation plans, in coordination with counterparts, to deal with these political and economic changes before they happen.
- To be successful, MEL process needs to be supported by the management team and Chief of Parties.